EXHIBIT A.521
(2 of 17)

Summary

This study focuses on a single analytical question: How can an independent Palestinian state be made successful?

Identifying the requirements for success is a pressing policy need if a new Palestinian state is established. Currently, the United States, Russia, the European Union, and the United Nations remain committed to the establishment of a Palestinian state, as do a critical mass of Palestinians and Israelis according to surveys. The "Roadmap," which these parties have all officially supported, calls for the establishment of a new Palestinian state by 2005.[1] President Bush recently revised this timetable for the United States, calling for a new state by 2009. As this book is published, prospects for an independent Palestine are uncertain, although the recent passing of Yasser Arafat has opened up new dialogue and new opportunities. Nevertheless, recent history in nation-building clearly indicates that in the absence of detailed plans, such efforts almost always fail. It is this void that the present volume seeks to fill.

In this study, we explore options for structuring the institutions of a future Palestinian state, so as to promote the state's chances of success. We do not examine how the parties could reach a settlement that would create an independent Palestinian state. Rather we develop recommendations, based on analysis, about steps that Palestinians, Israel, the United States, and the international community can begin to take now to increase the likelihood that a new Palestinian state will thrive.

It should be emphasized that nation-building even under ideal circumstances is a very difficult undertaking. If a peace is agreed to, significant distrust will still exist between Palestinians and Israelis, and some elements in both countries will not accept a peace settlement and instead will actively seek to disrupt progress toward a successful Palestinian state. Success will require good planning; significant resources; fortitude; significant sustained involvement of the international community; and courage, commitment, and hard work on the part of the Palestinian people.

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[1] The full title of the Roadmap is *A Performance-Based Roadmap to a Permanent Two-State Solution to the Israeli-Palestinian Conflict* and can be found at http://www.state.gov/r/pa/prs/ps/2003/20062pf.htm, as of June 2004.

Approach

We begin our discussion by considering the essentials of a successful new state—the nature of the institutions that will govern it and the structures and processes that will ensure its security. We then describe the demographic, economic, and environmental resources on which a Palestinian state can draw, while also identifying factors that can limit the state's ability to use these resources effectively. Finally, we consider what a Palestinian state must do to ensure that its citizens are healthy and educated.

In each substantive area, we draw on the best available empirical data to describe the requirements for success, to identify alternative policies for achieving these requirements, and to analyze the consequences of choosing different alternatives. We also provide initial estimates of the costs associated with our recommendations over the first decade of independence. The methodology used in each chapter differs depending on the nature of the analytic questions and the availability of data. Each chapter describes its individual approach and identifies the constraints and uncertainties that accompany the analysis.

Defining Success

In our view, "success" in Palestine will require an independent, democratic state with an effective government operating under the rule of law in a safe and secure environment that provides for economic development and supports adequate housing, food, education, health care, and public services for its people. To achieve this success, Palestine must address four fundamental challenges:

- **Security:** Palestinian statehood must improve the level of security for Palestinians, Israelis, and the region.
- **Governance:** A Palestinian state must govern effectively and be viewed as legitimate by both its citizens and the international community.
- **Economic development:** Palestine must be economically viable and, over time, self-reliant.
- **Social well-being:** Palestine must be capable of feeding, clothing, educating, and providing for the health and social well-being of its people.

Conditions for Success

Security
The success of an independent Palestinian state is inconceivable in the absence of peace and security for Palestinians and Israelis alike. Adequate security is a prerequisite to achieving all other recommendations in this volume. An independent Palestinian state

must be secure within its borders, provide for the routine safety of its inhabitants, be free from subversion or foreign exploitation, and pose no threat to Israel. Moreover, these conditions must be established from the moment of independence: Unlike infra-structure or industry, security is not something that can be built gradually.

Successful security arrangements range from protecting borders that surround the state to maintaining law and order within it. Success, even under the most favorable conditions, will probably require extensive international assistance; close cooperation between any international security personnel and their Palestinian counterparts; and Israeli-Palestinian security cooperation, bolstered by at least international financial as-sistance.

Governance

Good governance will be a key measure of success of a new Palestinian state. From our perspective, this must include governance that is representative of the will of the people, practices the rule of law, and is virtually free of corruption. The government must also enjoy the support of the people. To gain the support of the majority of Pal-estinians—three-fourths of whom public opinion surveys suggest support reconcili-ation with Israel and the establishment of an independent Palestinian state—a new state must be seen as legitimate by its citizens and practice the good governance that is necessary to maintain public respect and support.

The thoroughness with which democratic institutions and processes, including the rule of law, are established will be vital from the outset—indeed, it is already criti-cal. The death of Yasser Arafat in November 2004 will yield new challenges and op-portunities for Palestinians trying to establish the institutional foundation for an inde-pendent state.

Economic Development

An independent Palestinian state cannot be considered successful unless its people have good economic opportunities and quality of life. Palestinian economic develop-ment has historically been constrained, and per-capita national income peaked in the late 1990s in the range of "lower middle income" countries (as defined by the World Bank). Since then, national income has fallen by half or more following the start of the second intifada (uprising) against Israel in September 2000. An independent Palestin-ian state will need to improve economic conditions for its people just as urgently as it will need to improve security conditions.

Our analysis indicates that Palestine can succeed only with the backing, resources, and support of the international community—above all, the United States, the Euro-pean Union, the United Nations, the World Bank, and the International Monetary Fund. Resource requirements will be substantial for a decade or more. Of course, the availability of such resources cannot be taken for granted. The possible limited avail-ability of resources intensifies the need for the state to succeed quickly, especially in the eyes of those who provide private investment capital.

During the period of international assistance, the Palestinian state should invest aid, not merely consume it. Ultimately, an independent Palestinian state cannot be characterized as successful until the state becomes largely self-reliant.

Social Well-Being

A fourth condition for the success of an independent Palestinian state is that the living conditions of its people improve substantially over time. Many observers have suggested that disappointment about slow improvement in living conditions under Palestinian administration after 1994—and sharp declines in some years—contributed significantly to the outbreak of the second intifada.

In addition to the conditions for success described above, the Palestinian health and education systems must be strengthened. Options for such improvements are discussed in the final chapters of this book. Both systems start with considerable strengths. But both will also need considerable development, which will require effective governance and economic growth, as well as external technical and financial assistance. In the area of health, the state can be seen as successful if it is able to provide its citizens with access to adequate primary and tertiary care services while being able to carry out the basic public health functions of a modern state, including immunization programs for children. In education, all children need to be assured access to educational opportunities to enable them to achieve their potential while contributing to the economic and social well-being of the society.

Crosscutting Issues: Permeability, Contiguity, and Security

Our analysis identified three crosscutting issues that will strongly influence prospects for the success of a Palestinian state:

- How freely people can move between Israel and an independent Palestinian state, which we refer to as "*permeability*" of borders.
- Whether the state's territory (apart from the separation of Gaza from the West Bank) is *contiguous.*
- The degree to which *security* is achieved.

These issues affect all of the other issues examined in this book. It is important to understand how they are interlinked, how they affect key goals, and how they might be reconciled. This study concludes that none of the major conditions of success—security, good governance, economic viability, and social welfare—can be realized unless Palestinian territory is substantially contiguous. In a territorially noncontiguous state, economic growth would be adversely affected, and the resulting poverty would aggravate political discontent and create a situation where maintaining security would be very difficult, if not impossible. In any case, a Palestine divided into several or many

parts would present its government with a complex security challenge since a noncontiguous state would hamper law enforcement coordination; require duplicative and, therefore, expensive capabilities; and risk spawning rivalries among security officials, as happened between Gaza and the West Bank under the Palestinian Authority. Greater border permeability is essential for economic development but significantly complicates security.

Key Findings from the Analyses

Below key findings from our analyses are summarized. Most areas examined include estimates of the financial costs associated with implementing each chapter's recommendations. Costs are presented in constant 2003 U.S. dollars, unless otherwise noted, with no attempt to adjust the estimates for future trends in inflation or exchange rates.

These estimates are not based on detailed cost analyses. Rather, we intend them to suggest the scale of financial assistance that will be required from the international community to help develop a successful Palestinian state. More precise estimates will require formal cost studies (involving detailed needs assessments), which were outside the scope of the present project. Moreover, we did not estimate the costs of all the major institutional changes and improvements in infrastructure that would be required for a successful Palestinian state, so summing the cost estimates across the chapters of this book will fall considerably short of the "total" financial requirements for successful Palestinian development.

Governance

A successful Palestinian state will be characterized by good governance, including a commitment to democracy and the rule of law. A precondition to good governance is that the state's citizens view their leaders as legitimate. An important source of legitimacy will be how well Palestinian leaders meet the expectations of their people in negotiations with Israel on key issues such as the size of the new state, its territorial contiguity, and the status of Jerusalem, as well as the form and effectiveness of governance, economic and social development, and the freedom of refugees to resettle in Palestine or be compensated.

Good governance will be more easily achieved if Palestine's borders are open, its economy prosperous, its refugee absorption manageable, its security guaranteed, and its early years bolstered by significant international assistance. Good governance will not be achieved without significant effort and international assistance. It will depend heavily on the reform of government institutions and practices. At a minimum, Palestine must take actions that (1) promote the rule of law including empowering the judiciary, (2) give greater power to a Palestinian parliament, (3) significantly reduce corruption, (4) promote meritocracy in the civil service, and (5) delegate power to lo-

cal officials. Among other actions, a currently pending constitution that recognizes the will of the people and clearly defines the powers of various branches of government must be wisely completed. Finally, the authoritarian practices and corruption that has characterized rule under the Palestinian Authority must be eliminated.

Strengthening Palestinian governance will entail real costs, for instance for conducting elections and for establishing and operating the legislative and executive branches of government. Our analysis does not explicitly estimate the costs of these institutional changes. These costs are addressed in some instances, however, particularly those relating to administration of justice in Chapter Three.

Internal Security

The most pressing internal security concern for a Palestinian state will be the need to suppress militant organizations that pose a grave threat to both interstate security (through attacks against Israel and international forces) and intrastate security (through violent opposition to legitimate authority). Public safety and routine law enforcement—administration of justice—will also need to be put on a sound footing as quickly as possible.

Assistance for the administration of justice would facilitate the emergence of an independent judiciary and an efficient law enforcement agency capable of investigating and countering common criminal activity and ensuring public safety. Both of these broad objectives would require funds for rebuilding courthouses and police stations; supplying equipment and materials necessary for training, such as legal texts, computers, and other office equipment; and providing forensic and other training and the equipment that police need to carry out their day-to-day patrolling duties. A more comprehensive program aimed at accelerating the reform process and creating a sense of security for Palestinian citizens more swiftly would include deploying international police and vetting and recruiting judges, prosecutors, and police officers.

As in the realms of counterterrorism and counterintelligence, internal security requirements would demand restructured security services and up-to-date equipment, monitoring, training, and analytical support. Depending on the severity of the domestic terrorist threat and the speed with which Palestinian capacities develop in this area, a more intensive program might be needed.[2]

We estimate general internal security reconstruction costs to be at least $600 million per year, and as much as $7.7 billion over ten years.

Demography

There are almost 9 million Palestinians, nearly 40 percent of them living within the boundaries of what is likely to become a new Palestinian state (the West Bank and

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[2] A forthcoming RAND companion study to this one, entitled *Building a Successful Palestinian State: Security*, will explore security issues in more depth.

Gaza). The population's fertility rate is high. If there is large-scale immigration by Palestinian diaspora, the population in the Palestinian territories will grow very rapidly for the foreseeable future.

Rapid population growth will stretch the state's ability to provide water, sewerage, and transportation to Palestinian residents, and it will increase the costs of doing so. It will tax the physical and human capital required to provide education, health care, and housing, and it will place a heavy financial burden for funding these services on a disproportionately smaller working-age population. A new Palestinian state will also be hard-pressed to provide jobs for the rapidly growing number of young adults who will be entering the labor force.

There are clear signs that Palestinian fertility rates are declining, but the rate of decline is uncertain. In the short run, births will certainly increase since the number of Palestinian women in the prime childbearing years will more than double. How much fertility rates decline over the long term will probably depend on the degree to which the education levels and labor force participation of Palestinian women rise.

There is also considerable uncertainty surrounding the number of diasporic Palestinians who might move to a new Palestinian state. The Palestinian Central Bureau of Statistics and the United States Census Bureau estimate between 100,000 and 500,000 returnees. Our own estimates, based on assumptions about which groups of Palestinians will be most likely to return and under what conditions, are somewhat higher. Ultimately, the number of Palestinians returning will depend on the terms of the final agreement and on social, political, and economic developments in the new Palestinian state. These demographic realities greatly affect the likely economic and social development of the new state.

Water

A viable Palestinian state will need adequate supplies of clean water for domestic consumption, commercial and industrial development, and agriculture. These requirements are not being met today. Current water and waste management practices are degrading both surface streams and rivers and underground water resources.

Most of Palestine's water is provided by springs and wells fed by underground aquifers that are shared with Israel. Current water resource development provides only about one-half of the World Health Organization's per-capita domestic water requirement and limits irrigation and food production. In addition, current water use is unsustainable: The amount of water that the Palestinians and Israelis extract from most of the region's aquifers exceeds the natural replenishment rate.

Options for increasing the water supply that were examined include increasing groundwater use, accommodated by Israel's reduction in use; increasing rain and storm water capture; and increasing desalination capabilities where no other options exist. Demand can be managed through the wise application of water efficiency technologies, water reuse methods, and infrastructure improvements.

We estimate a base case cost of more than $4.9 billion for supplying water and sanitation through 2014. Improved water management strategies could save $1.3 billion to $2 billion.

Health

The health system of a future Palestinian state starts with many strengths, including a relatively healthy population, a high societal value placed on health, many highly qualified health professionals, national plans for health system development, and a strong base of governmental and nongovernmental health care institutions.

Important areas of concern include poor system-wide coordination and implementation of policies and programs across geographic areas and between the governmental and nongovernmental sectors of the health system, many underqualified health care providers, weak systems for licensing and continuing education, and considerable deficits in the operating budgets of the Palestinian Ministry of Health and the government health insurance system (the principal source of health insurance).

Our analysis focused on major institutions that the health care system would need in the first decade of an independent state. In addition, we identified several urgently needed programs for preventive and curative care.

We examined and recommended that priority be given to initiatives in two areas:

- Integrating health system planning and policy development more closely, with meaningful input from all relevant governmental and nongovernmental stakeholders.
- Improving public and primary health care programs, including an updated immunization program, comprehensive micronutrient fortification and supplementation, prevention and treatment of chronic and noninfectious disease, and treatment of developmental and psychosocial conditions.

We estimate that the Palestinian health system would require between $125 million and $160 million per year in external support over the first decade of an independent state.

Education

The future state's education system begins with a strong foundation, especially in the areas of access, quality, and delivery. Access strengths include a commitment to equitable access and success in achieving gender parity, strong community support for education, and leadership that is supportive of both system expansion and system reform. Strengths in the area of quality include willingness to engage in curricular reform, strong interest in and resources for improving pedagogy, commitment to improving the qualifications and compensation of staff, and the perception of schools as a key location for developing students' civic skills and social responsibility. The system is relatively well managed and has some solid data collection capabilities.

Nevertheless, the system faces notable challenges. In the area of access, these include rising levels of malnutrition, homelessness, and general poor health; inadequate facilities and supplies; unsafe schools and routes to schools; lack of special education options for students with special needs; lack of informal education options for school-age students; and the absence of lifelong learning opportunities. Quality challenges include a lack of clear goals and expectations for the system; limited relevance of secondary, vocational, and tertiary programs to Palestine's economic needs; limited research and development capacity and activity; low staff compensation and an emerging administrative "bulge"; and difficulty in monitoring process and outcomes. Delivery is hobbled by a severely underfunded and donor-dependent system, and the limited data on the system are not effectively linked to reform.

Our analysis examined ways in which access, quality, and delivery could be improved, with a long-term goal of positioning Palestine as a powerful player in the region's knowledge economy. We recommend the following three primary goals for the system over the next ten years:

- Maintaining currently high levels of access, while also working within resource constraints to expand enrollments in secondary education (particularly in vocational and technical education and the academic science track) and early childhood programs.
- Building quality through a focus on integrated curricular standards, assessments, and professional development, supported by long-term planning for system sustainability.
- Improving delivery by working with donors to develop streamlined and integrated funding mechanisms that allow the administration to focus on the business of meeting student needs, informed by strong evaluation and backed by significant sustained investment.

We estimate that the Palestinian education system will require between $1 billion and $1.5 billion per year in financing over the first decade of statehood if it is to operate at a level that will support national ambitions for development. (We do not distinguish between donor and national investments.) We recognize that these investment levels are substantial, both in absolute terms and relative to historical spending levels in Palestine (which averaged around $250 million per year during 1996–1999). Our recommendations are based on international benchmarks for spending per pupil in successful education systems. We also offer options for reducing costs should it be necessary to do so.

Economic Development

We examined possible economic development trajectories in an independent Palestinian state during the 2005 to 2019 timeframe, focusing on Palestine's prospects for sustaining growth in per-capita incomes. Prerequisites for successful economic develop-

ment include adequate security, good governance, adequate and contiguous territory, stable access to adequate supplies of power and water, and an adequate transportation infrastructure. In addition to the prerequisites, four critical issues—transaction costs, resources including internal resources and financing and external aid, the Palestinian trade regime, and the access of Palestinian labor to employment in Israel—will primarily determine the conditions under which the Palestinian economy will function.

Since Palestinian territory has limited natural resources, economic development will depend critically on human capital, with stronger systems of primary, secondary, and vocational education as indispensable down payments on any future economic success. Other important conditions will include Palestinian access to Israeli labor markets and substantial freedom of movement of people and products across the state's borders, including the border with Israel. However, brittle Israeli-Palestinian relations are likely to constrain cross-border movement of Palestinians into Israel for some time after a peace agreement.

Strategic choices made by policymakers at the outset of the new state will markedly affect its economic development. Decisions about *geographic contiguity*—the size, shape, and territorial coherence of a future Palestinian state, the inclusion of special sites or areas, and control over land and resources—will determine the resources that the new state's leaders will have to foster growth and the ease with which Palestinians can engage in business. Decisions about the degree of *economic integration* with Israel in terms of trade and the mobility of Palestinian labor will shape the Palestinian economy, the rate of economic growth, and prospects for employment.

We analyze four development scenarios, each determined by decisions about geographic contiguity and economic integration. We estimate the levels of economic growth that might be achieved under each scenario, given specific levels of international investment.

Under each scenario except the low-contiguity/low-integration case, Palestine could surpass its 1999 per-capita gross national income by 2009 and double it by 2019. Achieving such growth would require significant investment in Palestinian capital stock: Between 2005 and 2019, the Palestinian private and public sectors and the international community would have to invest about $3.3 billion annually, for a cumulative total of some $33 billion over the first decade of independence (and $50 billion over the period 2005–2019).

Under any scenario, domestic private employment would have to grow at a substantial pace (perhaps at an annual average of 15 to 18 percent) between 2005 and 2009 to reach rates of employment last seen during the summer of 2000. These employment rates should be possible once Palestinian businesses are able to operate in a relatively unrestricted environment and are fully able to utilize available resources.

We note that the assumed level of capital investment of $3.3 billion per year is in the same range as the total cost estimates for a port, airport, and connecting road; improvements in the electric power system; the capital costs of expanding water and

sewage systems; and even costs of improving health and education, many of which are operating, not investment costs. Thus, the economic analysis of the Palestinian economy provides some comfort that the total of the individual cost estimates is not out of line with overall investment needs.

Donor Funding and the Costs of Creating a Viable Palestinian State

As a frame of reference for the magnitude of funding that may be required from international donors to ensure successful Palestinian development, we considered the cases of Bosnia and Kosovo, two areas where the international community has recently invested very large sums for post-conflict reconstruction. Like the West Bank and Gaza, these two entities suffered considerable damage from conflicts. Both have attracted considerable international interest and assistance. Both have had some success in creating democratic governments and revitalizing the local economies. In the first two years following the signing of peace accords in Bosnia and Kosovo, foreign assistance (grants and loans) averaged $714 and $433, respectively, per person per year.

Applying these per-capita figures to the projected population of West Bank and Gaza, an analogous annual inflow of assistance of $1.6 billion to $2.7 billion would be required in the first year. The level of required assistance would rise to between $2.1 to $3.5 billion by 2014 because of increases in population (see Table S.1). Over

Table S.1
Aid Flows Analogous to Bosnia and Kosovo

Year	Estimated Palestinian Population	Total Aid (millions of 2003 dollars)	
		Bosnia Analogy	Kosovo Analogy
2005	3,761,904	2,688	1,627
2006	3,889,249	2,779	1,683
2007	4,018,332	2,871	1,738
2008	4,149,173	2,964	1,795
2009	4,281,766	3,059	1,852
2010	4,416,076	3,155	1,910
2011	4,547,678	3,249	1,967
2012	4,676,579	3,341	2,023
2013	4,807,137	3,434	2,080
2014	4,939,223	3,529	2,137
Total		31,068	18,813

SOURCE: World Bank, *West Bank and Gaza Update*, Washington, D.C., April–June 2003.
NOTE: The World Bank figures are in then-year U.S. dollars.

the ten-year period between 2005 and 2014, flows of foreign assistance to a new Palestinian state analogous to levels that have been granted to Kosovo and Bosnia would run from $18.8 billion to $31.1 billion. Those levels of foreign investment would be enough to cover the areas examined by our study, with some left over for other areas that were outside the scope of our study (e.g., transportation).

Looking to the Future

At the time of this writing, the prospects for establishing an independent Palestinian state are uncertain. U.S. attention, without which a negotiated settlement between Palestinians and Israelis seems unlikely, has been focused primarily on Iraq and elsewhere to date. However, President Bush recently called for a new state by 2009. U.S. experience in Iraq and Afghanistan can only reinforce the value of having plans in place for the eventuality of an independent Palestine. The death of Yasser Arafat in November 2004, which spurred both Palestinians and the wider world to focus on the future of the region, may yet turn this eventuality into a more imminent reality.

Our book is not a prediction that peace will come soon. However, we believe that thoughtful preparation can help make peace possible. And when peace comes, this preparation will be essential to the success of the new state. This book is designed to help Palestinians, Israelis, and the international community—the United States, its Quartet partners, and Palestine's Arab neighbors—prepare for the moment when the parties are ready to create and sustain a successful Palestinian state.

Abbreviations

ARIJ	Applied Research Institute Jerusalem
CM	cubic meter
CME	continuing medical education
EDZs	economic development zones
EIA	Energy Information Agency
EU	European Union
GDP	gross domestic product
g/l	grams per liter
GNI	gross national income
GNP	gross national product
ha	hectare
HDIP	Health, Development, Information and Policy Institute
ICITAP	International Criminal Investigative Assistance Program (U.S. Justice Department)
IDF	Israeli Defense Forces
IMF	International Monetary Fund
I/PCRI	Israel/Palestine Center for Research and Information
l/d	liters (of water) per day
M&I	municipal and industrial
MAS	Palestine Economic Policy Research Institute
MCM	million cubic meters
MoE	Palestinian Ministry of Education
MOH	Palestinian Authority Ministry of Health
N.A.	not available
NGO	nongovernmental organization
NIS	Israeli shekels

NWC	National Water Council
PA	Palestinian Authority
PASSIA	Palestinian Academic Society for the Study of International Affairs
PCBS	Palestinian Central Bureau of Statistics
PCDC	Palestinian Curriculum Development Center
PFLP	The Popular Front for the Liberation of Palestine
PHG	Palestinian Hydrology Group
PIJ	Palestinian Islamic Jihad
PLO	Palestinian Liberation Organization
PMA	Palestinian Monetary Authority
ppm	parts per million
PR	proportional representation
PRCS	Palestinian Red Crescent Society
PWA	Palestinian Water Authority
QI	quality improvement
QIP	Quality Improvement Project (of the Palestinian Authority Ministry of Health)
RSC	Regional Security Committees
TFP	total factor productivity
TIPH	Temporary International Presence in Hebron
UFW	unaccounted for water
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDOF	United Nations Disengagement Observer Force
UNDP	United Nations Development Programme
UNEF	United Nations Emergency Force
UNEP	United Nations Environmental Programme
UNESCO	United Nations Educational, Scientific, and Cultural Organization
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNSCO	United Nations Office of the Special Coordinator in the Occupied Territories
UNSCR	United Nations Security Council Resolution

Abbreviations   xli

USAID	The United States Agency for International Development
USBC	U.S. Bureau of the Census
WB	West Bank
WHO	World Health Organization

Glossary

1948 war—first in a series of wars in the Arab-Israeli conflict. It established the state of Israel as an independent state and divided the remaining parts of the British Mandate of Palestine into areas controlled by Egypt and Transjordan

1967 borders—Israel's borders after the 1967 Six-Day War

1967 Six-Day War—war fought in 1967 by Israel on one side and Egypt, Syria, and Jordan on the other. Israel took over the Golan Heights, the Jordanian portion of Jerusalem, the Jordanian West Bank of the Jordan River, and a large piece of territory in northeastern Egypt. Israel still occupies all of these territories except the Sinai Peninsula, which it gave back to Egypt in 1982

1991 Madrid Peace Conference—hosted by the Government of Spain and cosponsored by the U.S. and Russia (then the USSR); proposed two separate but parallel tracks for Israeli-Palestinian peace negotiations, the bilateral track and the multilateral track

1993 Declaration of Principles on Interim Self-Government Arrangements (Oslo I)—*see* Oslo Accords

1994 Protocol on Economic Relations (Paris Protocol)—agreement between Israel and the PLO that laid the groundwork governing the economic relations between the two sides

1995 Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip (Oslo II)—*see* Oslo Accords

al-Aqsa intifada—*see* second intifada

Al-Aqsa Mosque—mosque on top of Haram al-Sharif

aquifers—rain-fed underground stores of water that can be utilized through wells and springs

Arab League initiative—plan put forth at the Arab League summit in March 2002 calling for full Israeli withdrawal from all territories occupied since June 1967 and Israel's acceptance of an independent Palestinian State with East Jerusalem as its capital, in return for the establishment of normal relations in the context of a comprehensive peace with Israel

basic education—grades 1–10 (current system)

diaspora—dispersion of a people from their original homeland

distributive or **rentier states**—states that derive all or a substantial portion of their revenue from natural resources, such as petroleum, or from other bulk transfers to their treasury

Fatah—the largest faction of the Palestine Liberation Organization first intifada ("uprising") against Israel. 1987–1993

Geneva Accord (October 2003)—unofficial peace treaty drafted by a group of Israelis and Palestinians and issued in October 2003

graywater—household wastewater from sinks and showers

Green Line—name given to the 1949–1967 division between Israel and the West Bank

Hamas—acronym of Harakat al-Muqawamah al-Islamiyyah (Arabic: Islamic Resistance Movement), a Palestinian Islamist paramilitary and political organization

Haram al-Sharif (Temple Mount)—site in Jerusalem holy to both Muslims and Jews

higher education—formal schooling following completion of secondary school (includes community colleges, colleges, and universities)—*see also* tertiary education

Hizballah—a political and military organization in Lebanon founded in 1982 to fight Israel in southern Lebanon

Mandate Palestine—Palestine governed by the British under a mandate from the League of Nations, 1922–1948

net enrollment rate—number of enrolled same-age children divided by all school-age children, and excluding over-aged and under-aged children

Oslo Accords—The two agreements signed between Israel and the Palestine Liberation Organization in 1993 and 1995

Oslo II (the Taba Agreement)—interim agreement signed in Taba, Egypt, in September 1995

"permeable borders"—can include some limitations on the number of crossing points between Israel and Palestine, as opposed to "open" or "unrestricted" borders.

preparatory education—grades 8–10 (prior system, still a common reference, especially in UNRWA schools

Roadmap—*A Performance-Based Roadmap to a Permanent Two-State Solution to the Israeli-Palestinian Conflict.* Online at http://www.state.gov/r/pa/prs/ps/2003/20062pf.htm, as of June 2004

second intifada (al-Aqsa intifada)—uprising against Israeli in September 2000

secondary education—grades 11–12 (current system)

security barrier—barrier being constructed by Israel between Israel and Palestine

Taba Agreements—*see* Oslo II

tawjihi—graduation examination following grade 12

tertiary education—formal schooling following completion of secondary school (includes community colleges, colleges, and universities)—*see also* higher education

two-state solution—according to UNSCR 1397 (2002), two states, Israel and Palestine, living side by side within secure and recognized borders.

UN Security Resolutions 242 and 338—UNSCR 242 (1967) of 22 November 1967; UNSCR 338 (1973) of 22 October 1973.

CHAPTER ONE

Introduction

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and Cynthia R. Cook

This study focuses on a single analytical question: How can an independent Palestinian state be made successful?

Identifying these requirements became a pressing policy need for the United States with the adoption of the "Roadmap,"[1] which calls for a Palestinian state in 2005. President Bush recently revised this timetable and is now calling for a new state by 2009. Following a March 2002 UN Security Council Resolution, which called for the creation of a Palestinian state and was supported by the United States—in June 2002, President George W. Bush expressed explicit U.S. support for creating a Palestinian state.[2] To this end, the United States joined the European Union, Russia, and the United Nations to pursue the Roadmap initiative in 2003. The same year, the Israeli government under Prime Minister Ariel Sharon also formally endorsed the eventual creation of an independent Palestinian state.

When President Bush made his initial declaration, he called for creation of an independent Palestinian state within three years, and the Roadmap was designed to meet this timetable. As this chapter is written, however, the prospect of an independent Palestine is uncertain.[3] Nevertheless, a critical mass of Palestinians and Israelis, as well as the United States, Russia, the European Union, and the United Nations, remains committed to the establishment of a Palestinian state.

This book proposes options for structuring the institutions of a future Palestinian state, so as to ensure as far as possible the state's success. This study does not examine how an independent Palestinian state might be created, nor does it explore the process or terms of a settlement that would lead to its creation. In fact, one of the book's strengths is that by concentrating on factors that are key to making an established

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[1] The full title of the Roadmap is *A Performance-Based Roadmap to a Permanent Two-State Solution to the Israeli-Palestinian Conflict* and can be found at http://www.state.gov/r/pa/prs/ps/2003/20062pf.htm, as of June 2004.

[2] The Bush administration's support for a Palestinian state represents the culmination of gradual U.S. policy changes dating to the 1991 Madrid Peace Conference and the 1993 Declaration of Principles.

[3] Indeed, in an interview with the Egyptian newspaper *Al-Ahram* published on May 7, 2004, President Bush said that "the timetable of 2005 isn't as realistic as it was two years ago." *The Washington Post*, in an article by Mike Allen and Glenn Kessler (November 13, 2004, p. A01), reported that on November 12, 2004, President Bush set a new goal of "ensuring the creation of a peaceful, democratic Palestinian state alongside of Israel before he leaves office in 2009." "'I'd like to see it done in four years,'" Bush said. "'I think it is possible.'"

Palestinian state successful, it develops conclusions about what must be present both at the beginning and throughout the process to achieve success.

This work should be seen as a living document that will need to respond to the constantly changing realities in the region and that will need to be expanded to cover areas that were beyond the scope of this study. In particular, key areas such as housing, transportation, and energy are not dealt with in this study, although a companion study[4] will deal with them at a community level. A second companion study will deal with security issues not dealt with here.[5] Furthermore, the rapidly changing dynamics in the region and the death of Yasser Arafat demand a deeper analysis of the option for establishing good governance in a new state. The chapter on internal security must also be updated as geopolitical and security realities change and because of changes in international, Palestinian, and Israel leadership.

U.S. experience in Afghanistan and Iraq since 2001 has underscored our conviction that nation-building can only benefit from detailed consideration of governance, security, economic development, health, education, and natural resources, among other factors. Recent experience also clearly demonstrates the need for thoughtful detailed planning if nation-building experiences are to succeed. Furthermore, the lessons of U.S. experience in Iraq indicate clearly that, in order to seize the opportunity to build a state when it arises, advance planning is extremely important. Failure to have feasible options on the shelf can result in lost opportunity at the least and disaster at the extreme. Many of the policy options laid out here—including those in the areas of health, education, and water—can be initiated even before the establishment of a state.

Creating a state of Palestine does not ensure its success. But for Palestinians, Israelis, and many around the world, it is profoundly important that the state succeed. If the failed or failing states of recent years—Somalia, Yugoslavia, the Democratic Republic of the Congo, and Afghanistan—have endangered international security, consider the perils in the Middle East and beyond of a failed Palestine, or the costs and risks of one so weak that it must be propped up and policed by the United States and others. The true challenge for a Palestinian state is not that it exist, but that it succeed.

Organization of This Book

In our discussion, we first consider the essentials of a successful state—the nature of the institutions that will govern it and the structures and processes that will ensure its internal security. We then describe the demographic, economic, and critical water resource on which a Palestinian state can draw, while also identifying factors that can

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[4] Doug Suisman, Steven N. Simon, Glenn E. Robinson, C. Ross Anthony, and Michael Schoenbaum, *The Arc: A Formal Structure for a Palestinian State*, Santa Monica, Calif.: RAND Corporation, MG-327-GG, 2005.

[5] See RAND's forthcoming *Building a Successful Palestinian State: Security*.

limit the state's ability to use these resources effectively. Finally, we consider what a Palestinian state must do to strengthen its human capital, through ensuring its citizens health care and educational opportunities.

In each substantive area examined, we draw on the best available empirical data to describe the requirements for success, to identify alternative policies for achieving these requirements, and to describe the consequences of choosing each alternative. We also provide initial estimates of the costs associated with our recommendations over the first decade of independence. The specific methodology in each chapter differs with the nature of the analytic questions and the availability of data. Each chapter describes its individual approach and identifies the constraints and uncertainties that accompany the analysis.

In the remainder of this chapter, we consider goals for a successful Palestinian state in more detail. We then turn our attention to three major issues that cut across all parts of our book: the degree to which movement of people and goods is possible between an independent Palestinian state and other countries, which we refer to as "permeability"; the degree to which the territory of an independent Palestinian state is integral or fragmented, which we refer to as "contiguity"; and the nature of the security arrangements for Palestinians, Israelis, and the region. Finally, we describe the methodology we have used to estimate the costs of the options put forward in the various chapters.

Defining "Success"

In our view, "success" in Palestine will require an independent, democratic state with an effective government operating under the rule of law in a safe and secure environment that provides for economic development and supports adequate housing, food, education, health, and public services for its people. To achieve this success, Palestine must succeed in addressing four fundamental challenges:

- *Security:* Palestinian statehood must improve the level of security for Palestinians, as well as that for Israelis and the region as a whole.
- *Good Governance and Political Legitimacy:* A Palestinian state must be governed effectively and be viewed as legitimate by both its citizens and the international community.
- *Economic Viability:* Palestine must be economically viable and, over time, self-reliant.
- *Social Well-Being:* Palestine must be capable of feeding, clothing, educating, and providing for the health and social well-being of its people.

4   Building a Successful Palestinian State

When a Palestinian state is established, its success is not only important as an end in itself; it could influence the course of political and social reform in the greater Middle East. The failure of a Palestinian state might discourage efforts to bring about reform in the region.

Conditions for Success

Security

The success of an independent Palestinian state—indeed, its very survival—is inconceivable in the absence of peace and security for Palestinians and Israelis alike. Thus an independent Palestinian state must be secure within its borders, provide for the routine safety of its inhabitants, be free from radical subversion or foreign exploitation, and pose no threat to Israel. Moreover, these conditions must be established from the moment of independence. Security is not something that can be built gradually, like infrastructure or industry, but must be in place at the beginning of a new state if that state is to have a chance of succeeding. In fact, as shown in the security chapter (see Chapter Three), it is clear that even before a new state can be established, the present situation will need to improve considerably. Because of the breakdown in security within areas of Palestinian control in recent years, it is hard to see how Palestinians can assume the responsibility and gain the ability to provide adequate security, objectively and in Israeli eyes, without international support and involvement.

Successful security arrangements range from patrol and protection of the borders themselves to workable justice and public safety systems within them. There is no room in this chain for weak links: Internal leniency toward violent extremists will likely lead to Israeli reactions; and failure to monitor and manage who and what enters Palestine can only weaken internal public safety. The borders of an independent Palestinian state, including the degree of territorial contiguity and whether Palestinian territory surrounds Israeli settlements, will significantly affect the success of any security arrangements.

It will take more than Palestinian good faith and effort to meet such standards of security, even under the most favorable conditions. It will also require extensive international assistance and close cooperation among security personnel.

Good Governance and Political Legitimacy

Palestinian national aspirations have evolved over time since the creation of Israel in 1948. Through the establishment of the Palestine Liberation Organization (PLO) in 1964, Palestinians formally rejected the existence of Israel and called for a Palestinian state in the whole of all the territory that was governed by the British under the League of Nations mandate of 1920 (excluding Transjordan). As the "two-state solution" gained legitimacy internationally and among Palestinians living in the West Bank and

Gaza, the PLO formally changed course in 1988, recognized Israel, and proclaimed a Palestinian state based on the earlier UN partition resolution. This evolution in Palestinian goals was pushed further with the 1993 exchange of recognition letters between Israel and the PLO and the establishment of the Palestinian Authority (PA) by the Oslo Accords. Since 1994, however, the PLO has formally committed itself to a two-state solution.[6] Moreover, surveys suggest that some three-fourths of Palestinians in the West Bank and Gaza would support reconciliation with Israel following a peace treaty and the establishment of an independent Palestinian state.[7]

Of course, even a small number of rejectionists can be dangerous, as the past decade has shown. Such factions could target Israel or the Palestinian state and its leadership. In practice, the willingness and ability of the Palestinian state to resist or co-opt such factions will depend on its political legitimacy. Legitimacy, in turn, will depend on a number of factors, including the form and effectiveness of governance; economic and social development; territorial size and contiguity; the status of Jerusalem; and the status and the treatment of Palestinian refugees, particularly those currently living in Lebanon, Syria, and Jordan.[8]

Finally, the way that Palestinians govern themselves will affect the political viability of the new state (as well as its economic vitality and security). The thoroughness with which democratic institutions and processes are established will be critical from the outset—indeed, they are already critical even before the state has been created. Finally, the passing of Yasser Arafat is likely to generate new challenges and opportunities.[9]

Economic Viability

An independent Palestinian state cannot be considered successful unless its people have good economic opportunities and quality of life. Palestinian economic development has historically been constrained, and per-capita national income peaked in the late 1990s in the range of "lower middle income" countries (as defined by the World Bank). Since then, national income has fallen by half or more following the start of the second intifada ("uprising") against Israel in September 2000. An independent Pales-

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[6] The official Palestinian position today is to create a Palestinian state in the entirety of the West Bank and Gaza, with East Jerusalem as its capital, and living side by side with Israel. Palestinians have also accepted the principle of "land swaps" on a one-to-one basis.

[7] See, for instance, polls conducted by the Palestinian Center for Policy and Survey Research during November 14–20, 2002 (http://www.pcpsr.org/survey/polls/2002/p6a.html, as of May 2004), and during March 14–17, 2004 (http://www.pcpsr.org/survey/polls/2004/p11a.html, as of May 2004).

[8] There are approximately 612,000 Palestinians living in refugee camps in Lebanon, Syria, and Jordan, according to the Palestinian Central Bureau of Statistics.

[9] The pivotal role of sound political and social institutions has been acknowledged by the United States and the European Union and explored by key public policy research groups. RAND has built, in particular, on the work of the Council on Foreign Relations Independent Task Force on Strengthening Palestinian Public Institutions, whose 1999 report was updated in 2003 by its chairman, Henry Siegman. (The update can be accessed at www.cfr.org/pubs/5536_english.pdf as of March 15, 2005.)

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tinian state will need to improve economic conditions for its people as immediately and urgently as it will need to improve security conditions.

As we describe in this book (see Chapter Five), there are a number of prerequisites for successful economic development in a Palestinian state. These include security; adequate and contiguous territory (although we assume that the West Bank and Gaza will remain physically separate); stable access to adequate supplies of power and water; adequate infrastructure for transporting goods, both domestically and internationally, and the ability to use it; and an improved communication infrastructure. Since Palestinian territory has limited natural resources, economic development will depend critically on human resources, with stronger systems of primary, secondary, and vocational education as crucial down payments on any future economic success.

Historically, income from Palestinians working in Israel has been an important component of Palestinian national income. However, the degree of access by Palestinians to Israeli labor markets has fluctuated greatly and is minimal at the time of this writing. The extent of such access in the future is another important variable discussed in this book that will affect Palestinian economic development under independence.

A new Palestinian state will not be successful without significant economic development. Such development will require considerable external assistance in the form of investment capital in addition to good governance and human capital formation. It is also difficult to see how the Palestinian economy can flourish unless there is substantial freedom of movement of people and products across the state's borders, including the border with Israel.

Our study indicates that Palestine can succeed only with the backing and assistance of the international community—above all, the United States, the European Union, the United Nations, the World Bank, and the International Monetary Fund. Resource requirements will be substantial for a decade or more. During that period, aid should be invested, not merely consumed. Palestine's institutions and policies should be prepared to absorb many forms of foreign help—e.g., for external and internal security, health care and education, financing needs, and good governance. At the same time, an independent Palestinian state cannot be truly characterized as successful until the amount and scope of external assistance diminishes and the state becomes largely self-reliant.

The requirements for external assistance estimated in this study are considered essential to enable a Palestinian state to succeed. However, the availability of such resources should not be assumed at a time when many donor countries around the world are in, or are just coming out of, a recessionary period that has resulted in very tight budgets. This limited availability of resources places a special burden on the new state and intensifies the need for it to succeed quickly in the eyes of the international community—particularly among providers of private investment capital.

Social Well-Being

A fourth condition for the success of an independent Palestinian state is that the social well-being of its people improve substantially over time. Living conditions and provision of social services including health care and education have declined with Palestinian national income since the outbreak of the second intifada.

The final chapters of this book focus particularly on options for strengthening the Palestinian health care and education systems (see Chapters Seven and Eight). Both systems start with considerable strengths, but also require considerable development in the future. Such development will require effective governance and economic growth, as well as external technical and financial assistance.

Crosscutting Issues: Permeability, Contiguity, and Security

The following discussion highlights three crosscutting issues that will have special influence on the ability of a Palestinian state to achieve the essential conditions for success:

- how freely can people travel to and from an independent Palestinian state, which we refer to as *permeability* of borders
- whether its territory (apart from Gaza's separation from the West Bank) is *contiguous*
- the prevailing degree of *security* and public safety.

These issues affect all of the other issues examined in this book, and they interact with each other as well. It is important to understand how they are intertwined, how they affect key goals, and how they might be reconciled in some optimal way. As a rule, the greater the permeability, contiguity, and security of Palestine, the more likely Palestine will succeed as a state.

Permeability

Movement of people between Israel and Palestine will be crucial to the Palestinian economy by giving labor, products, and services access to a vibrant market and by encouraging foreign (Western and perhaps Israeli) investment in Palestine. On the other hand, a sealed border will undoubtedly affect political viability of the state and its economy. There are also some one million Palestinian citizens of Israel, who will desire access to family, friends, colleagues, and business associates in a Palestinian state and vice versa. An impermeable border would separate them from the Palestinian state.

Obviously, permeability has major implications for security. The more freedom of movement between a Palestinian state and Israel, the more opportunities there will be for the infiltration of terrorists into Israel. Such threats, in turn, will undermine the stability of a final status accord, especially if they lead to Israeli incursions into Palestinian territory.